

1500 Norwest Tower One South Church Avenue Tucson, Arizona 85701-1612 (520) 882-1200 Fax (520) 884-1294 RECORDATION NO. <u>205</u> FILED 1425 FEB 4 2 1997 - 9 40 AM

TUCSON, ARIZONA

PHOENIX, ARIZONA

IRVINE, CALIFORNIA

SALT LAKE CITY, UTAH

Curt D Reimann (520) 882-1204

February 11, 1997

VIA FEDERAL EXPRESS

Surface Transportation Board Recordation Unit, Room 2311 12th and Constitution Avenue Northwest Washington, DC 20423

Re:

Recordation of Continuing Security Agreement (Railroad Locomotives and

Railcars)

Dear Surface Transportation Board Recordation Unit:

I enclose an original and one certified copy of that certain Continuing Security Agreement (Railroad Locomotives and Railcars), dated December 16, 1996 (the "Security Agreement"), as more particularly described below, for recordation pursuant to Section 11303 of Title 49 of the U.S. Code.

The names and addresses of the parties to the Security Agreement are as follows:

Obligor:

GRAND CANYON RAILWAY, INC., an Arizona corporation

123 North San Francisco Street, Suite 210

Flagstaff, Arizona 86001-5212

Bank:

BANK ONE, ARIZONA, NA, a national banking association

Commercial Banking Center (A-781)

P.O. Box 71

Phoenix, Arizona 85001

Attention: Robert L. Cummings

Velizr\BOAZ\GRAND CANYON\TUX\50072 01



February 11, 1997 Page 2

The Security Agreement, a primary document, secures that certain Revolving Line of Credit Note dated December 16, 1996, in the original principal amount of Five Hundred Thousand and No/100 Dollars (\$500,000.00), by Bank, as lender, and Obligor, as borrower. A description of the equipment covered by the Security Agreement is attached hereto as Exhibit "A".

A short summary of the Security Agreement for use in indexing follows:

Continuing Security Agreement (Railroad Locomotives and Railcars), dated December 16, 1996, by and between GRAND CANYON RAILWAY, INC., an Arizona corporation ("Obligor"), whose address is 123 North San Francisco Street, Suite 210, Flagstaff, Arizona 86001-5212, and BANK ONE, ARIZONA, NA, a national banking association ("Bank"), whose address is Commercial Banking Center (A-781), P.O. Box 71, Phoenix, Arizona 85001, Attention: Robert L. Cummings, wherein Obligor granted to Bank, a security interest in those certain railroad locomotives, railcars, and accessories affixed thereto, as more particularly described on Exhibit "A" attached hereto.

We enclose our firm's check in the amount of \$22.00 to cover filing fees associated with recordation of the Security Agreement. Please return the original and any extra copies of the Security Agreement to:

Snell & Wilmer L.L P 1500 Norwest Tower One South Church Avenue Tucson, Arizona 85701-1612 Attention: Curt D. Reimann, Esq.

Please do not hesitate to contact the undersigned at (520) 882-1204 with any questions on this matter.

1 molt

For SNELL & WILMER LLP

cc: Pat Duffy

EXHIBIT "A"

Description of Collateral

STEAM LOCOMOTIVES

ENGINE #4960 ENGINE #20 ENGINE #18 ENGINE #29

DIESEL LOCOMOTIVES

ENGINE #6773 ENGINE #2134 EVENT RECORDER STEAM GENERATOR ENGINE #6793

PASSENGER CARS

9 HERRIMAN COACH CARS 8 HERRIMAN COACH CARS ELECTRICAL GENERATOR CAR

SPECIALTY CARS

DOME CAR BONAVENTURE CAR

WATER CARS

4 WATER CARS

BALLAST CARS

16 FREIGHT CARS

Exhibit A

Steam Locomotive #4960

4960 was built in 1923 by Baldwin Locomotive Works for the Chicago Burlington and Quincy. 4960 has a 2-8-2 wheel arrangement and is considered a medium sized "Mikado". It ran in freight service until 1958 in the upper mid-west, and later it ran in railfan and excursion service until 1966. It was retired by the CB&Q, stored and donated to the Mid Continent Railroad Museum. It ran briefly in 1981 at the Bristol and North Western Railroad. It was bought in 1989 by Grand Canyon Railway and was moved to Williams, Arizona in 1990.

In July 1993, Grand Canyon Railway started rebuilding the 4960. It has been hailed as one of the most extensive and expensive rebuilds ever to be undertaken on a steam locomotive. The rebuild entailed thirty-one months of work in a three year period which totaled over 80,000 hours. The 4960 rebuild was completed July 1996. The boiler, appliances, running gear, tender, cab, etc., were rebuilt. Numerous improvements were made to the engine which gave it longer maintenance life, durability, and efficiency.

4960 has a new boiler certificate (form-4) stamped and approved by a professional engineer. The Federal Railroad Administration (FRA) has approved its boiler, and the entire engine has been approved to run anywhere in the country.

Specification sheet attached.

Steam Locomotives #18, #29, and #20

#18, #29, and #20 were built for the Lake Superior and Ispeming as 2-8-0 consolidations. They ran in freight service until they were retired and stored in the early 1960's. The Grand Canyon Railway bought the locomotives in 1989 and moved them to Williams. Grand Canyon Railway rebuilt #18 and put it into service in September of 1989. Engine #29 was rebuilt and put it into service in April of 1990. Engine #20 was cosmetically rebuilt and put on display at the Williams Depot, and is a good candidate for rebuilding for operation in the future. Its boiler and running gear are in excellent shape.

Engines #18 and #29 are maintained to FRA standards, are currently operational, and can operate anywhere in the country. The engines were originally built to run at 25-30 mph. However, the Grand Canyon Railway has extensively improved them, and they now operate at 35-40 mph.

Specification sheets attached.

Diesel Locomotives #6773 and #6793

These diesel locomotives were built by Montreal Locomotive Works in Canada in 1959. These ALCO diesel FPA-4 units are vintage cab units built for passenger service for Canadian National Railway. They were sold to VIA Rail in the early 1980's when VIA took over passenger service in Canada. They were retired and stored in 1990. Grand Canyon

Railway bought #6773 in 1991 and #6793 in 1995. They both were rebuilt and put into operation those same years and are operational and fully FRA certified.

Specification sheet attached.

<u>Diesel Locomotive #2134</u>

T. A.

This GP-7 diesel unit was built in 1953 for the Santa Fe and was extensively rebuilt in 1974. It ran in freight service until 1989 when it was bought by the Grand Canyon Railway. This unit is operational and fully FRA certified.

Herriman Passenger Cars

These cars were built in the early 1920's for the Southern Pacific Railroad and were used for their passenger service on the West Coast. In later years, they were used in commuter service from San Francisco to San Jose, California. The Grand Canyon Railway bought seventeen of these coaches which seat eighty-eight passengers in 1989 after they had been stored and vandalized for several years. Seven were extensively rebuilt and put into service in September of 1989, and an additional six were rebuilt and put into service in 1990. These cars are in service and are FRA certified. The last four cars are currently being used for parts and have not been rebuilt. Two cars have 55kw generators installed underneath that provide power to the other cars. One of the cars was converted to a Club Car by installing a mahogany bar. It seats 66 passengers.

Bonaventure Parlor Car

This car was built for Canadian National Railroad in 1954 as a coach and was converted to a business car in 1956. It was used by Canadian National until 1992. It was sold to a private individual in 1992. The Grand Canyon Railway bought the car in 1996 and has started to refurbish it into a Parlor car. This car will be fully self contained, airconditioned, and very plush. It will be used as Grand Canyon Railway's first class passenger car. It will be placed on the tail of the train. A platform at the car's rear allows passengers to view the passage in the open air. The car also has a 20kw generator, its own heating system, and is expected to seat approximately thirty-five passengers. It is fully FRA certified, and is anticipated to be placed into service in December 1996.

Dome Car

This car was built in 1954 for the Great Northern Railroad. It was bought by AMTRAK in 1972 and used primarily on the Capitol Limited between Washington, DC and Chicago, Illinois. The car was retired in 1995 by AMTRAK and was stored serviceable. Grand Canyon Railway bought the car in 1996 and is planning to put it into service in December 1996 after a repaint and some minor work. The car has been extensively rebuilt over the years and will be used for first class service by Grand Canyon Railway. The car seats forty-six on the lower level and twenty in the upper level dome.

Steam Generator Car

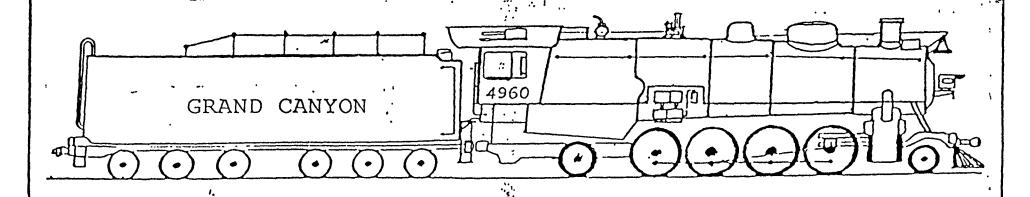
This car was built in 1960 for the Canadian National to provide steam to the cars for heating. The car was retired in 1994 and stored serviceable. Grand Canyon Railway

bought the car in 1995, rebuilt it, and put it into service heating and providing power to our Herriman passenger cars. This car is equipped with a package boiler in one end and a 350kw generator in the other.

Freight Cars

The Grand Canyon Railway has sixteen freight cars; ten to seventy ton side dump ballast cars used to dump ballast along the railroad, four-18,000 gallon water cars used to haul water to the Grand Canyon, one flat car which is used by the track department to haul equipment and materials, and one Jordan Spreader which is used to plow snow and clean the right of way ditches.

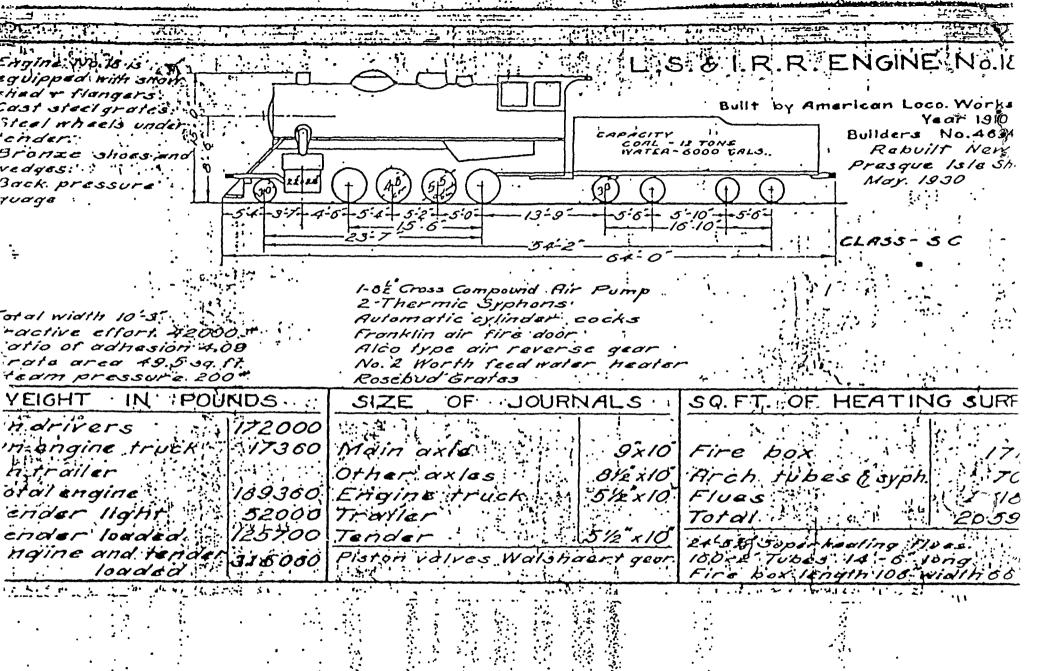
GCR 4960



SPECIFICATIONS FOR CLASS O-1A

Wheel Arrangement	2-8-2
Cylinders-in	27x30
Drivers, diain	64
Driving wheel base	16' 9"
Wheel base, total engine	33` 9.5``
Wheel base, engine plus tender	85' 0''
Steam pressure-psi	200
Grate area-sq. ft.	58.8
Superheating surface-sq. ft	769
Total heating surface-sq. ft	4178
Wt. on drivers-lb.	233,850
Wt. total engine-lb	310,780
* ***********************************	•••

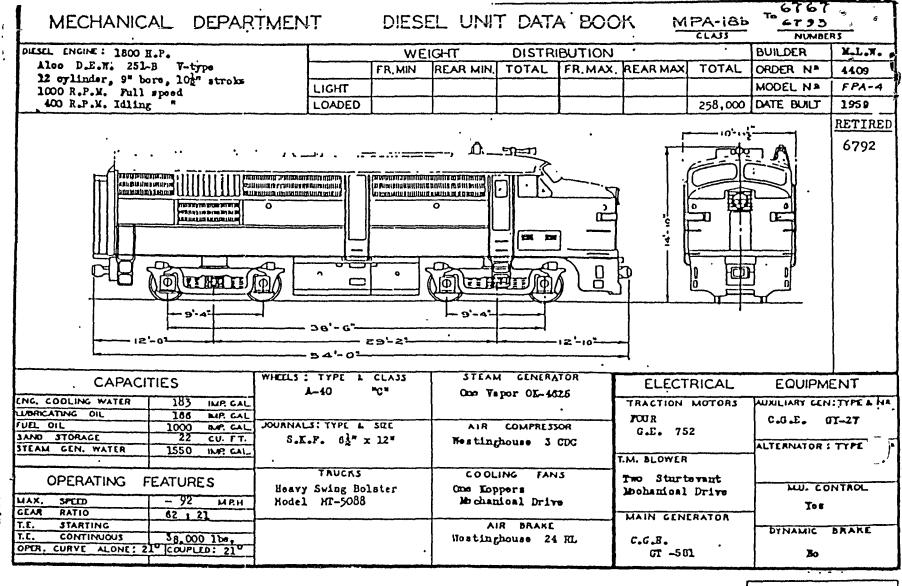
•	•
Wt. tender empty-lb	134,000
Wt. engine & tender, work	ing order-lb 626,780
Oil gal	4,500
Water gals	
Tractive effort-lb	58,090
Adhesion	3.85
Valve gear	Walschaerts
Superheater type	Schmidt-A
Power reverse type	Ragonnet
Injectors (2)	Chinese, 16.5 non-lifting
Air Pumps (2)	estinghouse, 8.5"- 150 CC
Generators (2)Pylc-N	Vational, E/3n, 1000w/32v



Virlue Gear

L. S. & I.R.R. ENGINE No.29 quipped with snow had and flangers. 01d No. 14. Built by Amarican Loco. Works Year 1806# Builders No. 39697 CORL - 13 TONS INATER 9500 BALLONS Rebuilt NEW Presour ISIE Shops 4-1925 سشهدى سام اوسام اوسان سان و سان وساع ارسا CL MSS.3C.3 ractive effort with booster - 59325 lbs. Rosabud Grates stal width 10-6" 2. Thermic Syphons. -delive effort 48000 lbs. Automatic Cylinder Cocks Rayonet Type Air Reverse Goor who of adhesion A.l Back Pressure Guage rale area 495 sq.ff. No. 2 Worthington Feed Water Heater. Tender Boaster team pressure 200 lbs SQ. FT. OF HEATING SURF. WEIGHT POUNDS SIZE OF. JOURNALS IN 'n drivers 1205500 10'x13 Fire box 236 in engine truck 21500 Main axle Arch tubes & Syph 9"x13" 65% n trailer · None Other axles 17.3 6"x10" Flues otal engine 227000 Engine truck None Total 20743 ender light Trailer 70000 ender loaded 167000 6"x11 Tender 32.5% Superheating Flues ngine and 220-2" Tubes 15-5" long Piston Valves Baker tender loaded 435000

Length wisth firebox 108 . Ce



JUNE 1980

i						Contination Pilot and Footboard	ĺ
	Fully Automatic Transition	Four-Speed Solenoid Governor Control	Speed Recorder - Indicator	Steam Generator	Steam Generator Remote Control Panel	Automatic Locomotive	ļ.
	Auxiliary Generator Trainline	kir Signal Lino	Seal Heam HL with Trainline Control	Thru Steam Trainline	Elect.Pneumatic and Auto-Sanding Feature	Testing. Unit 6767 Only	

Curt D. Reimann
Snell & Wilmer L.L.P.
1500 Norwest Tower
One South Church Avenue
Tucson, Arizona 85701-1612

Dear Sir:

The enclosed document(s) was recorded pursuant to the provisions of Section 11303 of the Interstate Commerce Act, 49 U.S.C. 11303, on 2/12/97 at 9:40AM, and assigned recordation number(s). 20546.

Vernon A. Williams Secretary

Enclosure(s)

\$ 22.00 The amount indicated at the left has been received in payment of a fee in connection with a document filed on the date shown. This receipt is issued for the amount paid and in no way indicates acknowledgment that the fee paid is correct. This is accepted subject to review of the document which has been assigned the transaction number corresponding to the one typed on this receipt. In the event of an error or any questions concerning this fee, you will receive a notification after the Commission has had an opportunity to examine your document.

Janes m. Fort

Signature

CERTIFICATION OF COPY

The undersigned Notary Public has compared the copy of the attached Continuing Security Agreement (Railroad Locomotives and Railcars) dated December 16, 1996, to the original Continuing Security Agreement (Railroad Locomotives and Railcars) dated December 16, 1996. Under penalty of perjury under the laws of the State of Arizona, and the United States of America, the undersigned certifies that she has found the copy to be complete and identical in all respects to the original document.

STATE OF ARIZONA)	
)	SS
County of Pima)	

I, Ramona Durazo, being first duly sworn, depose and say that the information set forth in this Certification of Copy above is true and complete to the best of my knowledge and reflects information gathered from my comparison of the attached copy of that certain Continuing Security Agreement (Railroad Locomotives and Railcars) to the original Continuing Security Agreement (Railroad Locomotives and Railcars) dated as Of December 16, 1996.

RAMONA DURAZO

SUBSCRIBED AND SWORN to before me this <u>II</u> day of February, 1997, by Ramona Durazo.

Notary Public

My Commission Expires:

OFFICIAL SEAL
PEGGY L LUNDOUIST
Notary Public - State of Arizona
PIMA COUNTY
My Comm Expires Aug. 23, 2000

RECORDATION NO 205 16 FEB 12 1997 -9 40 AM

CONTINUING SECURITY AGREEMENT

(Railroad Locomotives and Railcars)

DATE:

December 16, 1996.

PARTIES:

Obligor:

GRAND CANYON RAILWAY, INC., an Arizona corporation.

Obligor

123 North San Francisco Street

Address:

Suite 210

Flagstaff, Arizona 86001-5212

Bank:

BANK ONE, ARIZONA, NA, a national banking association.

Bank

Commercial Banking Center (A-781)

Address:

P. O. Box 71

Phoenix, Arizona 85001

Attention: Robert L. Cummings

<u>AGREEMENT</u>: For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Obligor agrees for the benefit of Bank as follows:

1. SCHEDULE OF TERMS.

Names in which Obligor conducts business:

Grand Canyon Railway, Inc.

Location of Collateral:

233 Grand Canyon Boulevard, Williams, Coconino, Arizona, 86046 (number and street) (city or town) (county) (state) (zip)

Location of sole place of business or chief executive office:

123 North San Francisco, Suite 210 Flagstaff, Arizona 86001-5212

Location of books and records relating to the Collateral (as hereinafter defined):

123 North San Francisco, Suite 210 Flagstaff, Arizona 86001-5212

- <u>DEFINITIONS</u>. In this Agreement, the following terms shall have the meanings set forth below, and all capitalized terms used in this Agreement and not defined herein which are used or defined in the Uniform Commercial Code as adopted by the State of Arizona, shall have their respective meanings as set forth in said Uniform Commercial Code:
 - "Agreement" shall mean this Security Agreement as it may be amended, modified, extended, renewed, restated, or supplemented from time to time.
 - "Collateral" shall mean those certain locomotives, railcars and accessories affixed thereto as listed on "Exhibit A", and all proceeds thereof.
 - "Commitment" shall mean any and all obligations of Bank from time to time to make advances to Obligor, to issue letters of credit requested by Obligor, or to make other financial accommodations for Obligor.
 - "<u>Default Rate</u>" shall mean a rate of interest equal to the aggregate of (i) four percent (4%) per annum, plus (ii) the highest rate per annum of interest applicable from time to time to the principal amount of any promissory note secured by this Agreement or guaranteed by a guaranty secured by this Agreement prior to a default or event of default under the promissory note.
 - "Event of Default" shall have the meaning specified in Section 6 of this Agreement.
 - "Governmental Authority" shall mean any government, any court, and any agency, authority, body, bureau, department, or instrumentality of any government.
 - "Lien or Encumbrance" and "Liens and Encumbrances" shall mean, respectively, each and all of the following: (i) any lease or other right to use; (ii) any assignment as security, conditional sale, grant in trust, lien, mortgage, pledge, security interest, title retention arrangement, other encumbrance, or other interest or right securing the payment of money or the performance of any other liability or obligation, whether voluntarily or involuntarily created and whether arising by agreement, document, or instrument, under any law, ordinance, regulation, or rule (federal, state, or local), or otherwise; and (iii) any option, right of first refusal, other right to acquire, or other interest or right.
 - "Loan Documents" shall mean this Agreement and any and all other agreements, documents, and instruments from time to time evidencing, guarantying, securing, or otherwise relating to the Obligations (including, without limitation, any and all promissory notes, loan agreements, and guaranties), as they may be amended, modified, extended, renewed, restated, or supplemented from time to time.

"Obligations" shall mean (i) that certain Revolving Line of Credit Note of even date herewith, in the original principal amount of Five Hundred Thousand and No/100 Dollars (\$500,000.00), executed by Obligor and payable to Bank; (ii) the Loan Documents; and (iii) any and all liabilities and obligations of Obligor to Bank existing now or in the future (except indebtedness of any individual for personal, family, or household purposes), whether for the payment of money or otherwise, whether absolute or contingent, whether as principal, endorser, guarantor, or otherwise, whether originally due to Bank or to a third Person and assigned or endorsed to Bank, and whether several, joint, or joint and several, all as they may be amended, modified, extended, renewed, restated, or supplemented from time to time.

"Permitted Exceptions" shall mean Liens and Encumbrances in favor of Bank.

"Person" shall mean a natural person, partnership, joint venture, unincorporated association, corporation, limited liability company, trust, any other legal entity, or any Governmental Authority.

"Requirements" shall mean any and all obligations, other terms and conditions, requirements, and restrictions in effect now or in the future by which Obligor or any or all of the Collateral is bound or which are otherwise applicable to all or any portion of the Collateral or the business or operations of Obligor (including, without limitation, such obligations, other terms and conditions, restrictions and requirements imposed by: (i) any law, ordinance, regulation, or rule (federal, state, or local); (ii) any Approvals and Permits; (iii) any Permitted Exceptions; (iv) any insurance policies; (v) any other agreement, document, or instrument to which Obligor is a party or by which Obligor or any of the Collateral is bound; or (vi) any judgment, order or decree of any arbitrator, other private adjudicator, or Governmental Authority to which Obligor is a party or by which Obligor, any or all of the Collateral, or the business or operations of Obligor is bound.

"Transfer" shall mean the occurrence of any of the following:

- (i) Any or all of the Collateral, or any interest or right of Obligor in or to the Collateral, is conveyed to, or becomes vested in, any Person, other than Obligor and Bank, voluntarily or involuntarily;
- (ii) The occurrence of any event that results in any option, right of first refusal, other right to acquire, or any other claim, interest, or right in, to, or against, any or all of the Collateral being held by a Person other than Obligor and Bank, whether occurring voluntarily or involuntarily and whether arising by agreement, under any law, ordinance, regulation, or rule (federal, state, or local), or otherwise; or

(iii) Obligor enters into any agreement, the performance of which would result in a Transfer under clause (i) or (ii) above, and the consummation of such agreement is not expressly conditioned upon the prior written consent of Bank in its absolute and sole discretion.

"<u>Uniform Commercial Code</u>" shall mean the Uniform Commercial Code as in effect from time to time in the State of Arizona (currently, Arizona Revised Statutes Sections 47-1101 through 47-11107).

- 3. **GRANT OF SECURITY INTEREST**. Obligor grants to Bank a Security Interest in the Collateral to secure payment and performance of the Obligations.
- 4. <u>OBLIGOR REPRESENTATIONS AND WARRANTIES</u> Obligor represents and warrants to Bank that the following statements as set forth in this <u>Section 4</u> are true, correct and complete as of the date hereof, and will be true, correct and complete as of the date of this Agreement:
 - 4.1 <u>Ownership of Collateral</u>. Obligor is the legal and beneficial owner of the Collateral, subject only to the Permitted Exceptions. There are no Liens and Encumbrances on the Collateral or claims thereof, except the Permitted Exceptions. There is no financing statement or other agreement now filed or recorded with any Governmental Authority covering any of the Collateral or in which Obligor is named or has signed as a Debtor, except financing statements related to the Permitted Exceptions.
 - 4.2 <u>Validity, Perfection, and Priority of Security Interest</u>. The Security Interest granted in this Agreement (i) is legal, valid, binding, and enforceable, (ii) is a Perfected Security Interest in all the Collateral, and (iii) is a first priority Security Interest.
 - 4.3 Names; Location of Collateral; Place of Business or Chief Executive Office; and Books and Records. Obligor conducts its business and other activities solely in the name set forth in Section 1 of this Agreement. The Collateral, the sole place of business or the chief executive office of Obligor, and all books and records of Obligor relating to the Collateral are at the locations set forth in Section 1 of this Agreement.
- 5. <u>OBLIGOR COVENANTS</u>. Until termination in full of any Commitment, and until the Obligations are paid and performed in full, Obligor hereby covenants and agrees as set forth in this <u>Section 5</u> which covenants shall remain in effect so long as any obligation of Obligor under the Loan Documents remains outstanding or unperformed, that, unless Bank otherwise agrees in writing in Bank's absolute and sole discretion:
 - 5.1 <u>Payment and Performance of Obligations</u>. Obligor shall pay and perform the Obligations and Obligor shall comply with and perform the Requirements.

5.2 <u>Transfer; Liens and Encumbrances; Defense of Obligor's Title and of Security</u> Interest.

- 5.2.1 Obligor shall not suffer to occur any Transfer. Except for the Permitted Exceptions, Obligor shall not suffer to exist any Lien or Encumbrance on any or all of the Collateral, regardless of whether junior or senior to the Security Interest granted herein. Obligor shall notify Bank immediately of any claim of any Lien or Encumbrance on any or all of the Collateral. Except for financing statements relating to Permitted Exceptions, Obligor shall not execute or suffer to exist or permit the filing or recording of any financing statement that covers any or all of the Collateral or in which Obligor is named or signs as Debtor.
- 5.2.2 Obligor shall defend the Collateral, the title and interest therein of Obligor represented and warranted in this Agreement, and the legality, validity, binding nature, and enforceability of the Security Interest granted herein, the perfection thereof, and the first priority thereof against (i) any attachment, levy, or other seizure by legal process or otherwise of all or part of the Collateral, (ii) except for Permitted Exceptions, any Lien or Encumbrance or claim thereof on any or all of the Collateral under any Lien or Encumbrance or any Permitted Exception, regardless of whether junior or senior to the Security Interest herein, or (iv) any claim questioning the legality, validity, binding nature, enforceability, perfection, or priority of the Security Interest herein. Trustor shall notify Beneficiary immediately in writing of any of the foregoing.
- Names; Books and Records; Location of Collateral; Place of Business or Chief Executive Office. Obligor shall maintain complete and accurate books and records relating to the Collateral. Unless Obligor obtains the prior written consent of Bank and takes in advance all actions and makes all filings and recordings necessary or appropriate to assure the perfection and priority of the Security Interest granted herein, Obligor shall not change its name, shall conduct its business and other activities solely in the name(s), trade name(s), and fictitious name(s) listed in Section 1, and shall not move the Collateral, its sole place of business or chief executive office, or its books and records relating to the Collateral from the locations set forth in Section 1.
- Inspection. Bank and such persons as Bank may designate shall have the right, at any reasonable time from time to time (i) to enter upon the premises at which any of the Collateral or any of the books and records relating to the Collateral are located; (11) to inspect the Collateral; (iii) to make extracts and copies from Obligor's books and records relating to the Collateral; and (iv) to verify, under reasonable procedures determined by Bank, the amount, condition, quality, quantity, status, validity, and value of, or any other matter relating to, the Collateral (including, without limitation, in the case of Receivables

or Collateral in the possession of a third Person, contacting the obligors of the Receivables or the third Persons possessing such Collateral for the purpose of making such verification). Obligor shall provide access to such premises. Bank shall have the absolute right to share any information it gains from any such inspection or verification with any other Person holding an interest or a participation in any of the Obligations.

- 5.5 <u>Further Assurances</u>. Obligor shall promptly execute, acknowledge, deliver, and cause to be duly filed and recorded, all such additional agreements, documents, and instruments (including, without limitation, financing statements), and take all such other actions as Bank may reasonably request from time to time to better assure, perfect, preserve, and protect the Security Interest granted herein, the priority thereof, and the rights and remedies of Bank hereunder. If any amount payable under or in connection with any Receivable shall be evidenced by any Instrument or in any of the Inventory by a Document, such Document or Instrument shall, at Bank's option, be immediately pledged and delivered to the Bank, and be duly endorsed in a manner satisfactory to the Bank.
- 5.6 <u>Insurance</u>. The risk of loss of, damage to, or destruction of the Collateral at all times shall be on Obligor. At Obligor's sole cost and expense, Obligor shall maintain insurance in form, amounts, and with such companies, in all respects satisfactory to Bank, covering all of the insurable Collateral on an all-risk basis, excluding standard exceptions acceptable to Bank, at full replacement value. Obligor shall deliver to Bank the original, or a certified copy, of each policy of insurance and evidence of payment of all premiums therefor. Such policies of insurance shall contain an endorsement, in form and substance satisfactory to Bank, showing all loss payable to Bank, as provided below. endorsement, or an independent instrument furnished to Bank, shall provide that such insurance company shall give Bank at least 30 days prior written notice before any such policy or policies of insurance shall be altered or canceled and that no act or default of Obligor, or any other Person, shall affect the right of Bank to recover under such policy or policies of insurance in case of loss or damage. Obligor hereby directs all insurers under such policies of insurance to pay all proceeds of such policies of insurance directly to Bank. Bank shall apply insurance proceeds to the Obligations, whether or not then due, in such order as Bank shall determine in its absolute and sole discretion.
- 5.7 <u>Taxes</u>. Obligor shall promptly pay when due any and all property, excise, and other taxes, and all assessments, duties, and other charges levied or imposed on any or all of the Collateral or imposed on Obligor in respect of any or all of the Collateral, this Agreement, or the Security Interest granted herein Obligor shall also pay when due any and all lawful claims for labor, materials, and supplies, that, if unpaid, might become a Lien or Encumbrance on any or all of the Collateral, provided that Obligor may withhold payment of taxes that are being challenged in good faith and which will not prejudice Bank's interest in the Collateral.

- No Obligations and Limit of Liability of Bank. Bank does not assume and shall 5.8 have no liability or obligation for any liabilities or obligations of Obligor relating to the Collateral. Bank shall have no obligation to notify Obligor with respect to the payment or performance or non-payment or non-performance of any third Person obligations included in the Collateral (including, without limitation, payment or non-payment of any Receivables), or to enforce the payment or performance by any third Person of obligations included in the Collateral (including, without limitation, payment of the Receivables). In exercising its rights and remedies contained in the Loan Documents, any other rights and remedies, and in performing any obligations to Obligor, Bank and its stockholders, directors, officers, employees, agents, and representatives shall have no liability or responsibility whatsoever (including, without limitation, any liability or obligation for any injury to the assets, business, operations, or property of Obligor), other than for its gross negligence or willful misconduct. No action taken or omitted to be taken by the Bank with respect to all or part of the Collateral shall give rise to any claim, counterclaim, defense, or offset in favor of Obligor against Bank (except for claims of gross negligence or willful misconduct by Bank).
- 5.9 <u>Costs and Expenses of Performance of Obligor's Covenants</u>. Obligor will perform all its Obligations under this Agreement at its sole cost and expense.

5.10 Actions by Bank; Power of Attorney.

- 5.10.1 If Obligor fails to pay or perform any of the Obligations under this Agreement, Bank, in its absolute and sole discretion, without obligation so to do, without releasing Obligor from such Obligations, and without notice to or demand upon Obligor, may pay or perform the same in such manner and to such extent as Bank determines necessary or appropriate in its absolute and sole discretion.
- 5.10.2 Without limiting the general powers conferred herein, in another Loan Document, or by law, upon an Event of Default or in exercising its rights under Section 5.10.1, Bank shall have the right but not the obligation to do any or all of the following from time to time: (i) to enter upon any premises where any of the Collateral or the books and records relating to the Collateral are located and take possession of the Collateral; (ii) to maintain, preserve, protect, repair, restore, assign, lease, pledge, sell, and otherwise dispose of and deal with the Collateral; (iii) to make additions, alterations, and improvements to the Collateral to keep the Collateral in good condition and repair; (iv) to complete any Collateral in process of manufacture, (v) to enforce the rights and remedies of Obligor with respect to the Collateral; (vi) to perform or cause compliance with the Requirements; (vii) to adjust, compromise, defend, deposit a bond or give security in connection with, discharge, enforce, make demands related to, pay or otherwise obtain the discharge or release, prosecute, release, settle, terminate, or waive any claim or legal

proceeding relating to any or all of the Collateral (including, without limitation, claims under insurance policies and claims against Obligor or the Collateral that Bank believes to be valid, regardless of whether actually valid); (viii) to execute, deliver, file, record, amend, modify, extend, renew, restate, supplement and terminate agreements, documents, and instruments included in or relating to the Collateral (including, without limitation, invoices, bills of lading, and Documents); (ix) to obtain any insurance required under this Agreement, to pay the premiums for such required insurance, to file, prosecute, compromise, and settle proofs of claim under such insurance, and to receive insurance proceeds payable to Bank alone; (x) to commence, appear and participate in, prosecute, and terminate any legal proceeding relating to the Collateral, the Security Interest granted herein, the perfection or priority of such Security Interest, or the rights or remedies of Bank under the Loan Documents or the law: (xi) to compromise, contest, deposit a bond or give security in connection with, discharge, pay, purchase, or settle any Lien or Encumbrance (including, without limitation, any Permitted Exception), whether senior or junior to the Security Interest granted herein; (xii) to do all other acts and things that Bank may, in its absolute and sole discretion, determine to be necessary or appropriate to carry out the purpose of the Loan Documents, as fully and completely as if Bank were the absolute owner of the Collateral, and (xiii) to pay from Bank's own funds or from proceeds of advances of any unadvanced portion of any Commitment, which Obligor advances hereby authorizes Bank to make for account of Obligor, all related costs, expenses, and fees (including, without limitation, attorneys' fees and costs of legal proceedings) incurred by Bank, which costs, expenses, and fees, if paid from Bank's funds, Obligor agrees to pay to Bank upon demand together with interest thereon at the Default Rate from the date incurred until paid in full. All costs, expenses, and fees incurred by Bank shall be prima facie evidence of the necessity therefor and the reasonableness thereof. Nothing in this Agreement shall be construed as requiring or obligating Bank to make any inquiry as to the nature or sufficiency of any payment received by Bank, to present or file any claim or notice, or to take any other action with respect to the Collateral.

- 5.10.3 Obligor hereby appoints Bank as Obligor's attorney-in-fact for the purpose of carrying out the provisions of this Agreement (including, without limitation, the obligations of Obligor). This appointment is coupled with an interest and is irrevocable. Without limiting the generality of the foregoing, Bank shall have the power, as attorney-in-fact, to do the things described in <u>Section 5.10.2</u> as and when provided in such section.
- 5.10.4 Nothing in this Agreement shall relieve Obligor of any of its obligations under any Loan Document or under any other agreement, document, or instrument, or in any way limit the rights or remedies of Bank.

- 5.11 <u>Maintenance of Collateral</u>. Obligor shall keep the Collateral in good condition and shall store such Collateral properly to protect it from damage, destruction, and deterioration. Obligor shall not misuse or conceal the Collateral, nor take any action or fail to take any action with respect to the Collateral that might affect any insurance coverage.
- 6. **EVENTS OF DEFAULT**. Each of the following shall be an event of default ("**Event of Default**"):
 - 6.1 Attachment, garnishment, levy of execution, or seizure by legal process of any or all of the Collateral, except any pre-judgment attachment or garnishment of any or all of the Collateral.
 - Any legal proceeding or other action against or affecting any or all of the Collateral is commenced (including, without limitation, any prejudgment attachment or garnishment) and is not quashed, stayed, or released within twenty (20) days.
 - 6.3 Giving of notice of a sale under the Uniform Commercial Code or any other action by any Person, other than Bank, to realize upon any of the Collateral under any Lien or Encumbrance, regardless of whether such Lien or Encumbrance is a Permitted Exception and regardless of whether junior or senior to the Security Interest granted herein.
 - 6.4 Any Transfer occurs.
 - 6.5 Any Lien or Encumbrance on any or all of the Collateral, other than the Permitted Exceptions, is created or exists, whether junior or senior to the Security Interest herein.
 - 6.6 Any or all of the Collateral is lost, stolen, suffers substantial damage or destruction, or declines materially in value.
 - 6.7 Obligor abandons any or all of the Collateral.
 - 6.8 The occurrence of a default or any event or condition that with notice, passage of time, or both would be a default in respect of any Permitted Exception.
 - 6.9 The occurrence of a default or condition or event designated as a default, an event of default, or an Event of Default under any other Loan Document or in any agreement, document, or instrument relating to any other indebtedness of Obligor to Bank.
- 7. **RIGHTS AND REMEDIES OF BANK.** Upon the occurrence of an Event of Default, Bank may, at its option, in its absolute and sole discretion and without demand or notice, do any or all of the following:

- 7.1 <u>Acceleration of Obligations</u>. Declare any or all of the Obligations to be immediately due and payable, whereupon such Obligations shall be immediately due and payable.
- Possession and Other Actions Concerning Collateral. Either in person or by agent, with or without bringing any action or legal proceeding, without regard to the adequacy of its security, or by means of a court appointed receiver, enter upon any premises in which the Collateral or the books and records relating to the Collateral are located and take possession of all or any part of the Collateral, exclude therefrom Obligor and all others claiming under Obligor, and take any or all of the actions described in Section 5.10.2. In the event Bank demands, or attempts to take possession of the Collateral in the exercise of the rights under this Agreement, Obligor shall promptly turn over and deliver possession of the Collateral to Bank. Bank may enter upon any premises upon which any of the Collateral or any books and records relating to the Collateral are located in order to exercise Bank's right to take possession of the Collateral and may remove the Collateral from such premises or render the Collateral unusable.
- 7.3 <u>Replevin</u>. As a matter of right and without notice to Obligor or anyone claiming under Obligor, Bank shall be entitled to orders of replevin by a court of any or all Collateral from time to time.
- Other Rights and Remedies. Exercise any and all other rights and remedies of Bank. In this regard, Bank may, among any other rights and remedies, sell all or any part of the Collateral at public or private sale for cash, upon credit, in exchange for other property, or for future delivery as Bank shall deem appropriate. As to sale or other disposition of the Collateral, except as to the Collateral that is perishable, threatens to decline speedily in value, or is of a type customarily sold on a recognized market as to which no notice shall be required, Bank shall give Obligor reasonable notice of the time and place of any public sale or of the time after which any private sale or any other intended disposition is to be made. Obligor agrees that any such notice shall be sufficient if given at least ten (10) days prior to such sale or other disposition. Bank may be a purchaser at any sale. Bank may pay the purchase price at any sale by crediting the amount of the purchase price against the obligations.
- 8. APPLICATION OR PROCEEDS. All Collateral and all proceeds of Collateral received by Bank, before or after an Event of Default, shall be applied by Bank to the Obligations, whether or not due, in such order as Bank shall determine in its absolute and sole discretion, subject to any requirements of law. Any Collateral and any balance of such proceeds remaining after payment of the Obligations in full will be paid to Obligor, its successors or assigns, or as the law or a court of competent jurisdiction may direct. Any proceeds of Collateral in the form of a check shall be credited against the Obligations only upon the expiration of such period of time after receipt thereof by Bank as Bank determines is reasonably sufficient to allow for clearance or payment

thereof. Any other proceeds of Collateral shall be credited against the Obligations only upon conversion into cash and receipt of such cash by Bank. Each such credit shall, however, be conditional upon final payment to Bank of the item giving rise to such credit.

- 9. PROVISIONS IN OTHER LOAN DOCUMENTS GOVERN THIS AGREEMENT. This Agreement is subject to certain terms and provisions contained in the other Loan Documents, to which reference is made for a statement of such terms and provisions.
- 10. <u>COUNTERPARTS</u>. This Agreement may be executed in counterparts, all of which executed counterparts shall together constitute a single document. Signature pages may be detached from the counterparts and attached to a single copy of this Agreement to form physically one document.
- 11. GOVERNING LAW This Agreement shall be governed by and construed in accordance with the laws of the State of Arizona, without giving effect to conflict of laws principles.

DATED as of the date first above stated.

GRAND CANYON RAILWAY, INC., an Arizona corporation

By:

Max Biegert

Chairman and Chief Executive Officer

"OBLIGOR"

BANK ONE, ARIZONA, NA, a national banking association

By:

Robert L. Cummings

Vice President

"BANK"

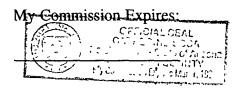
STATE OF ARIZONA)	
County of MAPICOPA)	SS.

The foregoing instrument was acknowledged before me this ___ day of December, 1996, by Max Biegert, the Chairman and Chief Executive Officer of Grand Canyon Railway, lnc., an Arizona corporation, on behalf of the corporation.

IN WITNESS HEREOF, I have hereunto set my hand and official seal.

Cotherine Ina

Notary Public



STATE OF ARIZONA) ss.
County of Maricopa)

The foregoing instrument was acknowledged before me this ___ day of December, 1996, by Robert L. Cummings, a Vice President of Bank One, Arizona, NA, a national banking association, on behalf of the bank.

IN WITNESS HEREOF, I have hereunto set my hand and official seal.

Notary Public

My Commission Expires:

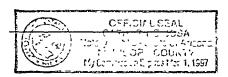


EXHIBIT "A"

Description of Collateral

STEAM LOCOMOTIVES

ENGINE #4960

ENGINE #20

ENGINE #18

ENGINE #29

DIESEL LOCOMOTIVES

ENGINE #6773 ENGINE #2134 EVENT RECORDER STEAM GENERATOR ENGINE #6793

PASSENGER CARS

9 HERRIMAN COACH CARS 8 HERRIMAN COACH CARS ELECTRICAL GENERATOR CAR

SPECIALTY CARS

DOME CAR BONAVENTURE CAR

WATER CARS

4 WATER CARS

BALLAST CARS

16 FREIGHT CARS

Exhibit A

Steam Locomotive #4960

4960 was built in 1923 by Baldwin Locomotive Works for the Chicago Burlington and Quincy. 4960 has a 2-8-2 wheel arrangement and is considered a medium sized "Mikado". It ran in freight service until 1958 in the upper mid-west, and later it ran in railfan and excursion service until 1966. It was retired by the CB&Q, stored and donated to the Mid Continent Railroad Museum. It ran briefly in 1981 at the Bristol and North Western Railroad. It was bought in 1989 by Grand Canyon Railway and was moved to Williams, Arizona in 1990.

In July 1993, Grand Canyon Railway started rebuilding the 4960. It has been hailed as one of the most extensive and expensive rebuilds ever to be undertaken on a steam locomotive. The rebuild entailed thirty-one months of work in a three year period which totaled over 80,000 hours. The 4960 rebuild was completed July 1996. The boiler, appliances, running gear, tender, cab, etc., were rebuilt. Numerous improvements were made to the engine which gave it longer maintenance life, durability, and efficiency.

4960 has a new boiler certificate (form-4) stamped and approved by a professional engineer. The Federal Railroad Administration (FRA) has approved its boiler, and the entire engine has been approved to run anywhere in the country.

Specification sheet attached.

Steam Locomotives #18, #29, and #20

#18, #29, and #20 were built for the Lake Superior and Ispeming as 2-8-0 consolidations. They ran in freight service until they were retired and stored in the early 1960's. The Grand Canyon Railway bought the locomotives in 1989 and moved them to Williams. Grand Canyon Railway rebuilt #18 and put it into service in September of 1989. Engine #29 was rebuilt and put it into service in April of 1990. Engine #20 was cosmetically rebuilt and put on display at the Williams Depot, and is a good candidate for rebuilding for operation in the future. Its boiler and running gear are in excellent shape.

Engines #18 and #29 are maintained to FRA standards, are currently operational, and can operate anywhere in the country. The engines were originally built to run at 25-30 mph. However, the Grand Canyon Railway has extensively improved them, and they now operate at 35-40 mph.

Specification sheets attached.

Diesel Locomotives #6773 and #6793

These diesel locomotives were built by Montreal Locomotive Works in Canada in 1959. These ALCO diesel FPA-4 units are vintage cab units built for passenger service for Canadian National Railway. They were sold to VIA Rail in the early 1980's when VIA took over passenger service in Canada. They were retired and stored in 1990. Grand Canyon

Railway bought #6773 in 1991 and #6793 in 1995. They both were rebuilt and put into operation those same years and are operational and fully FRA certified.

Specification sheet attached.

Diesel Locomotive #2134

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This GP-7 diesel unit was built in 1953 for the Santa Fe and was extensively rebuilt in 1974. It ran in freight service until 1989 when it was bought by the Grand Canyon Railway. This unit is operational and fully FRA certified.

Herriman Passenger Cars

These cars were built in the early 1920's for the Southern Pacific Railroad and were used for their passenger service on the West Coast. In later years, they were used in commuter service from San Francisco to San Jose, California. The Grand Canyon Railway bought seventeen of these coaches which seat eighty-eight passengers in 1989 after they had been stored and vandalized for several years. Seven were extensively rebuilt and put into service in September of 1989, and an additional six were rebuilt and put into service in 1990. These cars are in service and are FRA certified. The last four cars are currently being used for parts and have not been rebuilt. Two cars have 55kw generators installed underneath that provide power to the other cars. One of the cars was converted to a Club Car by installing a mahogany bar. It seats 66 passengers.

Bonaventure Parlor Car

This car was built for Canadian National Railroad in 1954 as a coach and was converted to a business car in 1956. It was used by Canadian National until 1992. It was sold to a private individual in 1992. The Grand Canyon Railway bought the car in 1996 and has started to refurbish it into a Parlor car. This car will be fully self contained, air-conditioned, and very plush. It will be used as Grand Canyon Railway's first class passenger car. It will be placed on the tail of the train. A platform at the car's rear allows passengers to view the passage in the open air. The car also has a 20kw generator, its own heating system, and is expected to seat approximately thirty-five passengers. It is fully FRA certified, and is anticipated to be placed into service in December 1996.

Dome Car

This car was built in 1954 for the Great Northern Railroad. It was bought by AMTRAK in 1972 and used primarily on the Capitol Limited between Washington, DC and Chicago, Illinois. The car was retired in 1995 by AMTRAK and was stored serviceable. Grand Canyon Railway bought the car in 1996 and is planning to put it into service in December 1996 after a repaint and some minor work. The car has been extensively rebuilt over the years and will be used for first class service by Grand Canyon Railway. The car seats forty-six on the lower level and twenty in the upper level dome.

Steam Generator Car

This car was built in 1960 for the Canadian National to provide steam to the cars for heating. The car was retired in 1994 and stored serviceable. Grand Canyon Railway

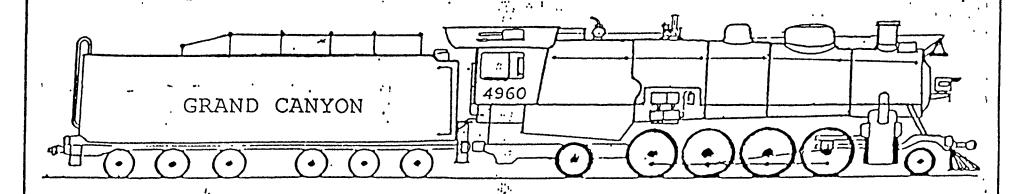
bought the car in 1995, rebuilt it, and put it into service heating and providing power to our Herriman passenger cars. This car is equipped with a package boiler in one end and a 350kw generator in the other.

Freight Cars

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The Grand Canyon Railway has sixteen freight cars; ten to seventy ton side dump ballast cars used to dump ballast along the railroad, four-18,000 gallon water cars used to haul water to the Grand Canyon, one flat car which is used by the track department to haul equipment and materials, and one Jordan Spreader which is used to plow snow and clean the right of way ditches.

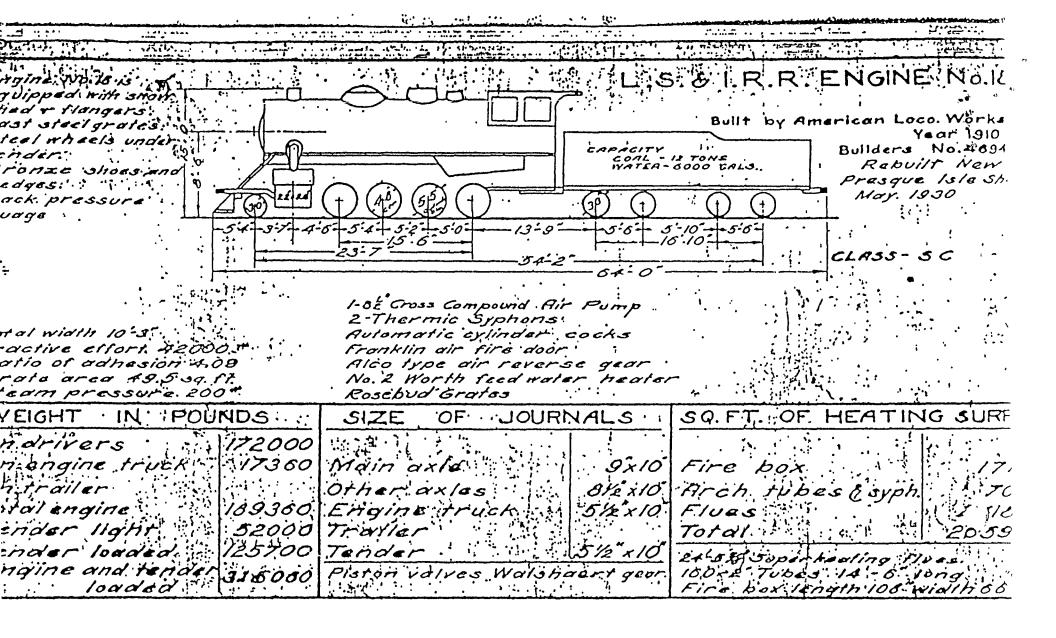
GCR 4960



SPECIFICATIONS FOR CLASS 0-1A

Wheel Arrangement	2-8-2
Cylinders-in	27x30
Drivers, diain	
Driving wheel base	
Wheel base, total engine	33 ' 9.5"
Wheel base, engine plus tender	85' 0"
Steam pressure-psi	200
Grate area-sq. ft	58.8
Superheating surface-sq. ft	769
Total heating surface-sq. ft	4178
Wt. on drivers-lb.	233,850
Wt. total engine-lb	310,780
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Wt. tender empty-lb
Wt. engine & tender, working order-lb 626,780
Oil gal4,500
Water gals 18,000
Tractive effort-lb
Adhesion
Valve gearWalschaerts
Superheater typeSchmidt-A
Power reverse type
Injectors (2) Chinese, 16.5 non-lifting
Air Pumps (2)
Generators (2)Pyle-National, E/3n, 1000w/32v

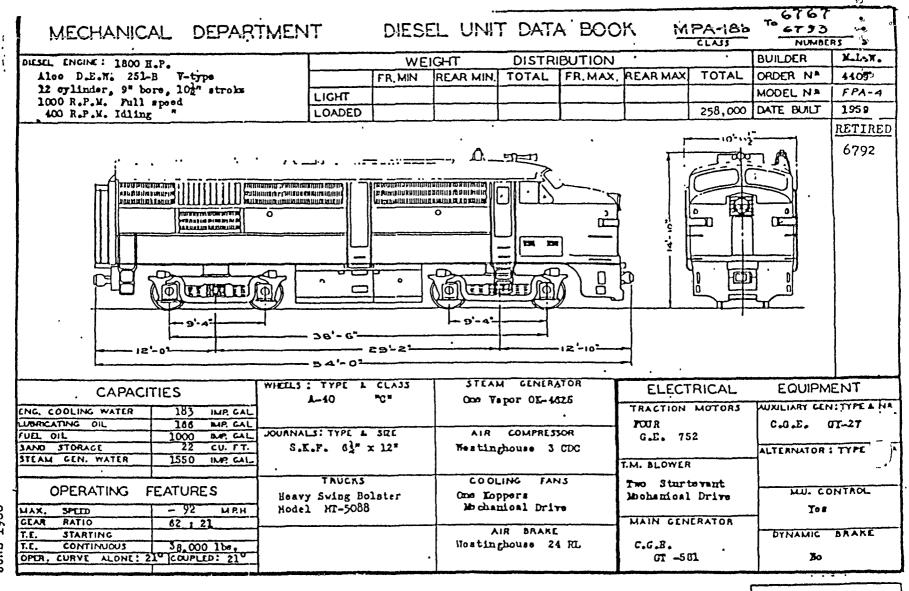


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Valve Gear

L. S. & I.R.R. ENGINE ruipped with snow Ne.28 ed and flangers. Old No.74 Built by American Loco. Works Year 1800 Builders No. 39097 COPACITY COME - 13 TONS
WATER 4500 BALLONS Robuilt NEW Presque Isla Shops 4-1925 -16:0" . . -- 20:0" · 24-8". CL #35.3C.3 active effort with booster - 59825 lbs. Rosebud Grates tal width 10-6" 2. Thermic Syphons. active effort 48000 lbs. Automatic Cylinder Cocks stio of adhesion A.l Rayonet Type Air Reverse Gaur Buck Pressure Guaga rale area 495 sq.ff. No. 2 Worthington Faed Water Heater earn pressure 200 lbs. Tender Boaster SQ. FT. OF HEATING SURF. LEIGHT IN POUNDS SIZE OF. JOURNALS n drivers 1205500 nengine truck , 21500 Main axle 10"x13 Fire box 236 7 trailer 9"x13" Arch tubes & Syph 65% * None Other axles 6'110" tal engine 227000 Engine truck 12.3 Flues nder light 70000 Trailer None Total 2074% 6"x11 ·nder loaded 157000 Tendar 32.5% Superhunting Flues ngine and render loaded 435000 220-2" Tubes 15:5" long Piston Valves Baker

Length + wistly firebox 108 . Ci



JUNE 1980

ŧ				1		Contination Pilot and Footboard
	Fully Automatic Transition	Four-Speed Solenoid Governor Control	Speed Recorder - Indicator	Steam Generator	Steam Generator Remote Control Panel	Automatic Locomotive
	Auxiliary Generator Trainline	kir Signal Lino .	Seal Feam HL with Trainline Control	Thru Steam Trainline	Elect.Pneumatic and Auto-Sanding Feature	Testing. Unit 6767 Only